

following something that has already been done before, say, by the Bank of England or the federal reserve Board or by banks throughout the world, or are you breaking new ground in central banking techniques?

Mr. BEATTIE: No. This is not a new technique. It is not one that is available to all central banks, but the Bank of England has power to do what they describe as calling up special deposits, which mechanically is the same thing as this. They are able to say to the clearing banks, "You deposit with us an additional amount equal to one per cent or two per cent of your total deposits and we will give you a rate of return which is roughly comparable to the rate of return on, for example, treasury bills or money market loans."

It is mechanically equivalent in its effect on their lending policies to this secondary reserve requirement embodied in bill C-190.

This kind of power is becoming increasingly common because countries are coming to expect increasingly high standards of economic behavior and management, while with capital markets becoming more open the effect of developments outside a country are communicated all round the world with greater speed than used to be the case, and particularly in the case of smaller countries like Canada the scale of the job that has to be done sometimes is rather great and it is helpful to have these supplementary techniques available, although we would hope that we would not have to use or have to rely on these to any great extent.

It would be only in unusual situations that variations in the secondary reserve would be contemplated by the Bank of Canada.

Senator LEONARD: Mr. Beattie, have you not been operating in somewhat this way by co-operation with the banks in respect of the secondary reserve, in any event, for some years?

Mr. BEATTIE: There has been an agreement in force since early 1956 on a minimum secondary reserve ratio.

Senator LEONARD: Yes.

Mr. BEATTIE: But it has never been varied. The new thing here is that there is power to vary the secondary reserve requirement as well as to impose it by statute.

Senator LEONARD: Do I understand from what you have said that the power to change the primary reserve from 8 to 9 per cent has been taken away and this substituted? So now the primary reserve is being fixed at 8 per cent, is it?

Mr. BEATTIE: It has been fixed at 4 per cent on term and notice deposits and at 12 per cent on demand deposits. There has been a reduction of the average minimum cash reserve required. This new minimum works out to about 6.6 per cent on average as compared with the present 8 per cent, although it is split between the two broadly different kinds of deposits. We are giving up the power to vary that 8 per cent between 8 and 12, and it is proposed we should have the power to impose and vary a secondary reserve requirement between the limits of six and 12 per cent.

Senator THORVALDSON: This bill makes 8 per cent the maximum?

Mr. BEATTIE: This bill washes out the cash reserve requirement variability entirely and substitutes for it the power to vary the secondary reserve ratio between limits of six and 12. The present agreement which has been in force for over 10 years was at a constant 7 per cent.

Senator LEONARD: Where do you get the minimum of 4 per cent on the deposits?

Mr. BEATTIE: Well, this is in the Bank Act, section 72. We have no power to change that in any way. We have given up our power in that respect.

Senator SMITH (*Queens-Shelburne*): Several times you have mentioned this agreement with regard to some amendments in secondary reserves being in